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27 JUN 1974

MEMORANDUM FOR: Director of Central Intelligence

FROM : Deputy Director for Intelligence

SUBJECT : US and Soviet Levels of Military Effort

1. This memorandum is to inform you of some recent analytical developments in military-economics and to provide you with a response (attached) to Secretary Schlesinger's recent memorandum to you on the subject.

2. A couple of months ago I forwarded to you the first annual report of my Military-Economic Advisory Panel, which commented on work done in this Directorate on Soviet military-economic activity with suggestions for future work. One such suggestion is directly relevant to Secretary Schlesinger's recent memorandum to you requesting more support from the intelligence community on the relative contributions of the US and Soviet economies to military strength.

3. The Panel's recommendation was that we scrutinize more closely comparisons of growth in economic value of inventory of military hardware in addition to our work on annual flow of resources into military use. OSR has made some preliminary investigations of this approach, and has concluded that--within limits--it has merit.

4. The initial look into the problem is discussed in the attached "think piece." The key findings are:

--It would be useful if CIA's reporting on Soviet defense spending could be extended to include an analysis showing how much of the annual total is devoted to programs that contribute little if anything or only very indirectly to military capabilities; programs that maintain, but do not add to existing capabilities; and programs that make a positive increment to existing capabilities. The job would be difficult, but

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CIA's present methods of calculation are compatible with the type of analysis needed and we believe that the job can be done.

- Comparable data on the US required to make such an approach most useful is not readily available but probably could be compiled with the assistance of the Department of Defense.
- A preliminary study of two Soviet military programs, Surface Naval Combatants and Frontal Aviation shows that the USSR has been adding weapons value to inventory at a rate well above the increases in numbers of the systems produced. We have not at this point been able to match the data with US trends.
- The relationship of spending (input) to military capabilities (output) is inexact at best, but if care is taken to ensure comparability of methods of computation, analysis of relative trends in military strength of the US and USSR might be carried one step beyond its present level.
- Analysis of this type will require breaking new ground, both conceptually and in data acquisition. We will need to depend heavily on the experience and data of the US Department of Defense. With full Pentagon support we can probably program the work within existing manpower levels, but it will take time.

5. I plan to make a more detailed study of this approach and to undertake consultations with US military officials concerning their support and their attitude to the utility of such studies.

6. I recommend you sign the attached memorandum to the Secretary of Defense.

[Redacted Signature]

EDWARD W. PROCTOR  
Deputy Director for Intelligence

Attachment:

"Military Power and Defense  
Budgets," Blind Memorandum,  
18 November 1974

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